



COUNTY OF SAN DIEGO

AGENDA ITEM

BOARD OF SUPERVISORS

NORA VARGAS
First District

JOEL ANDERSON
Second District

TERRA LAWSON-REMER
Third District

VACANT
Fourth District

JIM DESMOND
Fifth District

DATE: September 12, 2023

25

TO: Board of Supervisors

SUBJECT

**EXCESS CONTRIBUTION TO REDUCE PENSION UNFUNDED ACTUARIALLY
ACCRUED LIABILITY (DISTRICTS: ALL)**

OVERVIEW

The County of San Diego (County) has a history of actively and comprehensively managing its retirement liabilities and costs including: establishing new employee retirement benefit tiers, prepaying pension obligation bonds when feasible, providing additional contributions to the retirement fund and committing General Fund fund balance for retirement costs. Section 113.5(b) of the San Diego County Code of Administrative Ordinances and Board Policy B-65, Long-Term Financial Obligation Management Policy, require one-time over-realized general purpose revenue generated by greater-than-anticipated assessed value growth be used to reduce the pension fund's Unfunded Actuarially Accrued Liability (UAAL).

In alignment with the County's long-term strategy for managing growing retirement costs, and consistent with code and policy requirements, today's action will establish appropriations to direct \$31.1 million of one-time over realized revenue generated by greater than anticipated assessed value growth as a one-time contribution to the San Diego County Employees Retirement Association (SDCERA) in Fiscal Year 2023-24 to reduce the pension fund's UAAL. These actions are a part of a long-term plan to manage ongoing pension costs to help ensure the County's commitment to providing for employees' retirement while maintaining service delivery to the public in the long term.

RECOMMENDATION

CHIEF ADMINISTRATIVE OFFICER

Establish appropriations of \$31,142,813 in Finance Other, Services & Supplies and related revenue for a one-time excess contribution to SDCERA to reduce the pension fund's UAAL, based on General Purpose Revenue generated from one-time unanticipated growth in assessed value. **(4 VOTES)**

EQUITY IMPACT STATEMENT

Approval of this recommendation will direct one-time over realized revenue generated by greater-than-anticipated assessed value growth be used to reduce the pension fund's UAAL. SDCERA's

**SUBJECT: EXCESS CONTRIBUTION TO REDUCE PENSION UNFUNDED
ACTUARIALLY ACCRUED LIABILITY (DISTRICTS: ALL)**

retirement benefits support a broad community of diverse employees and retirees, providing long-term financial support well after active employment with the County concludes.

SUSTAINABILITY IMPACT STATEMENT

Today's proposed actions support the County's Sustainability Goal #2 to provide just and equitable access by aligning the County's available resources with services to maintain fiscal stability and ensure long term solvency.

FISCAL IMPACT

Funds for this request are not included in the Fiscal Year 2023-24 Operational Plan. If approved, this request will result in costs and revenue in Finance Other of \$31,142,813 in Fiscal Year 2023-24. The funding source is General Purpose Revenue based on greater-than-anticipated growth in assessed value. Today's recommendation will result in a one-time requirement of General Fund revenues. No additional staff years are required. The ongoing increase to General Purpose Revenue will be incorporated into the Fiscal Year 2024-25 and future Operational Plans.

BUSINESS IMPACT STATEMENT

N/A

ADVISORY BOARD STATEMENT

N/A

BACKGROUND

As the County of San Diego's (County's) retirement liabilities continue to grow, so does the County's annual required contribution toward employee retirement costs, as calculated by the SDCERA actuary. The UAAL was \$4.8 billion as reported in SDCERA's most recent Actuarial Valuation and Review (Valuation) dated June 30, 2022, and has grown from 2008 when the UAAL was \$485.3 million.

The annual employer contribution for retirement costs has grown by an estimated \$565.7 million since Fiscal Year (FY) 2009-10 to an anticipated \$772.7 million in the current fiscal year based on the June 30, 2022 Valuation. Future required contributions are expected to increase over the coming years. Based on the SDCERA actuary's projections, annual required employer contributions will reach a high of \$864 million in FY 2025-26, assuming that all assumptions included in the 2022 Valuation are realized, including meeting the retirement fund's assumed rate of return (ARR) on investments of 6.50%.

As the County's obligations to fund the costs of retirement benefits for current and future employees have grown, the Board of Supervisors has taken action to strategically manage retirement costs with a comprehensive and robust approach including: implementing new employee retirement benefit tiers, prepaying pension obligation bonds when feasible, providing additional contributions to the retirement fund, committing existing General Fund fund balance to pay for retirement liabilities, and actively planning for changes to the economic and demographic assumptions that the SDCERA Board of Retirement has made and is anticipated to make in the future. These actions help ensure the County's commitment to providing for employees' retirement while maintaining service delivery to the public in the long term.

**SUBJECT: EXCESS CONTRIBUTION TO REDUCE PENSION UNFUNDED
ACTUARIALLY ACCRUED LIABILITY (DISTRICTS: ALL)**

On September 12, 2017 (20), the Board amended Board Policy B-65, Long-Term Financial Management Policy, to direct that any one-time over realized revenue generated by greater than anticipated assessed value growth be used to reduce the pension fund’s UAAL. The Board adopted an Ordinance to codify Board Policy B-65 into the San Diego County Code of Administrative Ordinances (Administrative Code) on March 13, 2018 (21). Specifically, Section 113.5(b) was added to the Administrative Code, which directs that, “The County shall invest one-time over-realized general purpose revenue generated by greater-than-anticipated assessed value growth to accelerate payment of pension unfunded actuarial accrued liability.”

The FY 2023-24 Operational Plan, adopted by the Board on June 27, 2023 (17), included an assumption that the overall assessed value of real property in the County would grow by 5.00% during the current fiscal year. The property tax roll was closed after the Board’s adoption of the budget. Based on final activity as reported by the Assessor/Recorder/County Clerk at the end of June 2023, the assessed value of all taxable properties has grown by an estimated 7.12%, contributing an estimated additional \$31.1 million to General Purpose Revenue in the current fiscal year. In accordance with Section 113.5(b) of the Administrative Code and Board Policy B-65, this one-time over realized revenue generated in FY 2023-24 is recommended to fund a one-time contribution of \$31.1 million to SDCERA to reduce the pension fund’s UAAL.

The following table details the history of the County’s additional voluntary payments to SDCERA since FY 2004–05 including one-time over realized revenue from assessed value growth pursuant to Administrative Code Section 113.5(b) and Board Policy B-65:

| Voluntary Payments to SDCERA | |
|-------------------------------------|---------------------------------------|
| Fiscal Year | Amount <i>(in millions)</i> |
| 2004–05 | \$ 24.9 |
| 2005–06 | \$ 40.0 |
| 2006–07 | \$ 26.9 |
| 2010–11 | \$ 29.6 |
| 2012–13 | \$ 14.2 |
| 2017-18 | \$ 22.5 |
| 2018-19 | \$ 13.8 |
| 2019-20 | \$ 10.0 |
| 2020-21 | \$ 0.0 |
| 2021-22 | \$ 0.0 |
| 2022-23 | \$ 8.8 |
| 2023-24 | \$ 31.1 |
| Total | \$ 221.8 |

SUBJECT: EXCESS CONTRIBUTION TO REDUCE PENSION UNFUNDED
ACTUARIALLY ACCRUED LIABILITY (DISTRICTS: ALL)

LINKAGE TO THE COUNTY OF SAN DIEGO STRATEGIC PLAN

Today's action to make a contribution to unfunded retirement costs based on greater-than-anticipated growth in assessed value is consistent with Section 113.5(b) of the San Diego County Administrative Code and Board Policy B-65 and supports the Sustainability (Economy) Strategic Initiative in the County of San Diego's 2023-2028 Strategic Plan. By actively managing the costs related to the retirement benefits of the County's employees, this action ensures that available resources are aligned to services to maintain fiscal stability.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Helen N. Robbins-Meyer", written in a cursive style.

HELEN N. ROBBINS-MEYER
Interim Chief Administrative Officer

ATTACHMENT(S)

N/A